

Message Text

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INFO OCT-01 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC 2356

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E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: AN AUGUST POTPOURRI: SOME LIGHT ON A FEW
FINANCIAL QUESTIONS

REF: A) PARIS 19992; B) PARIS 14805; C) PARIS 15963

(1974); D) PARIS 17999

IN COURSE OF A LUNCHEON CONVERSATION WITH JEAN-MICHEL
BLOCH-LAINE, ASSISTANT TREASURY DIRECTOR FOR MULTI-
LATERAL FINANCIAL AFFAIRS, THE FOLLOWING POINTS WERE
DEVELOPED:

A. THE MONETARY SUMMIT: THIS WAS AND REMAINS STRICTLY
AN ELYSEE PROJECT. BLOCH-LAINE, WHO WOULD BE IN FIRST
LINE OF PREPARATIONS, ALLOWED THAT HE HAS BEEN HARD
PRESSED TO INFORM OVERSEAS REPRESENTATIVES OF MINISTRY
AND OTHER INTERESTED OFFICIALS AS TO WHAT PROPOSAL IS
ALL ABOUT, WHAT IS TO BE DISCUSSED, ETC.

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B. VENICE: BLOCH-LAINE STRESSED COORDINATION OF DOMESTIC ECONOMIC POLICIES, PARTICULARLY THEIR TIMING, AS MAJOR EMPHASIS OF AUGUST 27 MEETING.

C. FRENCH FOREIGN BORROWING : BLOCH-LAINE WAS NOT SURE SAUDI-ARABIAN LOAN (REF A), OR AT LEAST ALL 8 BILLION FRANCS OF IT, WOULD BE AGREED ON. IF IT IS, IDEAL PLACEMENTS, IN ORDER, WOULD BE 1) REGULAR MARKETABLE SECURITIES (PRESUMABLY OF FRENCH COMPANIES, BANKS OR FINANCIAL INSTITUTIONS SUCH AS CREDIT NATIONALE); 2) SPECIAL ISSUE OF TREASURY BILLS WHICH SEEMS TO BE ARAB PREFERENCE (CF REF B FOR KUWAIT). THESE WOULD ALSO BE NEGOTIABLE, AT LEAST BETWEEN STATES OR GOVERNMENT FINANCIAL INSTITUTIONS. INTEREST RATE WOULD OF COURSE HAVE TO BE ADVANTAGEOUS. BEYOND THIS, HOWEVER, HE QUESTIONED WHETHER MORE BORROWING WAS REALLY USEFUL: WASN'T FRANCE ALREADY OVERBORROWED ABROAD? WHAT WAS THE LOGIC, HE ASKED, OF IRAN TRANSFERRING A SECOND TRANCHE OF ITS PROMISED DEPOSIT TO FRANCE (REF C) WHEN IRAN ITSELF

IS NOW BORROWING? BLOCH-LAINE POINTED OUT THAT FOREIGN BORROWING HAD NOW SPREAD TO MEDIUM-SIZED FRENCH FIRMS AS WELL. HE NOTED THAT, IF ALL CONTRACTED LOANS WERE TAKEN, BY 1980 DEBT SERVICE WOULD BE AN EQUAL WEIGHT TO FRENCH BALANCE OF PAYMENTS AS INCREASED PRICE OF OIL. HE FURTHER RAISED DANGER OF STRONG DOWNWARD PRESSURE ON FRANC WHICH WOULD RESULT IF DOMESTIC BORROWERS DECIDED TO REFINANCE FOREIGN LOANS AT HOME. FRANC WOULD NOT WITHSTAND. HE STATED THIS WAS ONE OF OBJECTIONS MINISTRY HAD POSED TO REJOINING "SNAKE" -- IT WOULD HAVE BEEN WISER TO WAIT OUT THIS POSSIBILITY. (IMPLICATION WAS CLEARLY ANOTHER CONFIRMATION THAT RETURN TO "SNAKE" WAS POLITICAL DECISION MADE AGAINST TECHNICAL ADVICE (REF D).

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D. OIL PRICE HIKE: BLOCH-LAINE SUGGESTED THAT THIS WOULD BE "MORE THAN JUST SYMBOLIC," AND NOTED CALMING EFFECT ON OIL PRODUCERS OF RISE OF DOLLAR. ON LATTER SCORE, HE ALLOWED THAT "BEST OF WORLDS" WOULD HAVE BEEN LOW DOLLAR AND MAINTENANCE OF PRESENT PRICES, AND ADMITTED THAT FRENCH PROTESTS OF LOW DOLLAR EXCHANGE RATE THIS YEAR HAVE BEEN FAR SOFTER THAN IN 1973.

E. DOMESTIC ECONOMIC SCENE: OFFICIALLY, THIS IS NOT BLOCH-LAINE'S FIELD, BUT HIS PERSONAL CONTACTS (HE IS AN INSPECTEUR DES FINANCES) AND FAMILY TIES (BLOCH-LAINE SENIOR WAS PERHAPS THE LEADING FIGURE IN FRENCH BANKING BEFORE HIS FORCED RETIREMENT LAST YEAR) GIVE VALUE TO HIS "PERSONAL" OPINIONS. HE FORESEES NO REAL RECOVERY OF FRENCH ECONOMY BEFORE SECOND QUARTER 1976.
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MORE INTERESTING YET, HE EXPRESSED VIEW THAT WERE IT NOT FOR CERTAIN (UNNAMED) POLITICAL FIGURES FORCING ISSUE, EVEN MODEST MEASURES TAKEN OR DUE IN SEPTEMBER WOULD HAVE BEEN PUT OFF. "GOVERNMENT" (PRESUMABLY GISCARD AND FOURCADE) IS STILL OBSESSED WITH INFLATION, AND CONVINCED THAT UNEMPLOYMENT, "EVEN 1.3 MILLION," ITSELF A SUFFICIENT DISSUASION TO UNREST. THEY SEE, HE SUGGESTED, ONLY ADVANTAGES OF PRESENT SITUATION.
GAMMON

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